

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Watson Township	County Allegan, MI
Audit Date 3/31/05	Opinion Date 9/15/05	Date Accountant Report Submitted to State: 9/27/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Angle & Steffes, P.C.			
Street Address 430 Western Ave, Suite B	City Allegan	State MI	ZIP 49010
Accountant Signature <i>John K. Angle CPA</i>		Date	

TOWNSHIP OF WATSON

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INDEPENDENT AUDITOR'S REPORT

September 15, 2005

To the Township Board
Township of Watson
Allegan County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Watson, Allegan County, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Watson Township, Allegan County, Michigan management. Our responsibility is to express an opinion on these financial statements based on our audit.

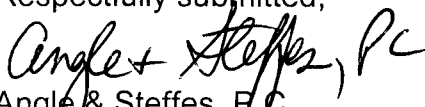
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Watson as of March 31, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of March 31, 2003.

The management's discussion and analysis and budgetary comparison information on pages 2 and 21 through 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,


Angle & Steffes, P.C.
Certified Public Accountants

MANAGEMENT & DISCUSSION ANALYSIS

As management of Watson Township, this report is a narrative overview and analysis of the financial activities for the fiscal year end March 31, 2005.

Financial Highlights

General Fund

Assets of Watson Township exceeded its liabilities at the close of the fiscal year 2005 by \$201,349, all of this amount, (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The unrestricted net assets of the Road Fund increased due to the budget process. The budget process was designed to use the major portion for major road projects.

Fiscal year 2005 ending fund balance of \$303,533 reflected road projects not completed.

The Township's net assets continue to remain healthy with new residents moving in, building permits increased by 77%, and SEV increased by \$7,251,497.

Watson Township's total governmental revenue increased by approximately \$421, which somewhat reflects the overall downturn of our economy.

Expenses decreased approximately \$20,764, primarily the result of a decrease in expenditures.

Township Funds

The General Fund pays for most of the Township's government expenses. Most significant are fire and ambulance service, which are all contracted out from other agencies due to the rural nature of our township.

The special Property Tax Major Road Improvement Fund was increased by \$163,426 due to saving for a major two mile road project.

The special Property Tax Dust Control Fund is depleted each budget year to give the residents the most dust control available.

Building Department Fund - revenue is from construction permits. Expenses are managing the fund.

Economic Factors and Next Year's Budgets

New budget deficits in State shared sales tax are resulting in State budget cuts to local governments. With State shared sales tax revenue amounts decreasing we must be very budget conscious.

With increased SEV we should have an increase in property tax revenue, road revenue, and dust control revenue. However, we still need to continue to maintain a conservative budget.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information we welcome you to contact the Township Office.

TOWNSHIP OF WATSON
GOVERNMENT WIDE STATEMENT OF NET ASSETS
MARCH 31, 2005

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Cash and cash equivalents	\$ 360,047	\$ 360,047
Investments	106,042	106,042
Receivables - net	43,417	43,417
Prepays	1,052	1,052
Capital assets - net	<u>78,706</u>	<u>78,706</u>
 Total Assets	 <u>589,264</u>	 <u>589,264</u>
LIABILITIES		
Accounts payable	5,112	5,112
Accrued and other liabilities	564	564
Noncurrent Liabilities		
Due within one year	0	0
Due in more than one year	<u>0</u>	<u>0</u>
 Total Liabilities	 <u>5,676</u>	 <u>5,676</u>
NET ASSETS		
Invested in Capital Assets		
Net of related debt	78,706	78,706
Restricted For		
Streets and highways	303,533	303,533
Public safety	0	0
Park	2,839	2,839
Unrestricted	<u>198,510</u>	<u>198,510</u>
 Total Net Assets	 <u>\$ 583,588</u>	 <u>\$ 583,588</u>

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF WATSON
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2005

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
					Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government							
General government	108,121	4,856	0	0	(103,265)	0	(103,265)
Public safety	48,150	23,883	0	0	(24,267)	0	(24,267)
Public works	147,834	0	0	0	(147,834)	0	(147,834)
Health and welfare	6,000	0	0	0	(6,000)	0	(6,000)
Community/Economic development	10,195	0	0	0	(10,195)	0	(10,195)
Recreation and culture	0	0	0	0	0	0	0
Total Governmental Activities	320,300	28,739	0	0	(291,561)	0	(291,561)
Total Primary Government	\$ 320,300	\$ 28,739	\$ 0	\$ 0	(291,561)	0	(291,561)
General Revenues							
Property taxes					163,689	0	163,689
State aid revenues					155,665	0	155,665
Unrestricted investment earnings/losses					3,267	0	3,267
Rental income					640	0	640
Miscellaneous					4,060	0	4,060
Transfers					0	0	0
Total General Revenues-Special Items and Transfers					327,321	0	327,321
Change in Net Assets					35,760	0	35,760
Net Assets-Beginning					547,828	0	547,828
Net Assets-Ending					\$ 583,588	\$ 0	\$ 583,588

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF WATSON
GOVERNMENTAL FUND BALANCE SHEET
March 31, 2005

	General Fund	Road Fund	Non-Major Governmental Fund	Total Governmental Fund
ASSETS				
Cash and cash equivalents	\$ 68,281	\$ 291,202	\$ 564	\$ 360,047
Investments	106,042	0	0	106,042
Receivables - net	26,411	12,331	0	38,742
Due from other funds	4,675	0	0	4,675
Prepays	1,052	0	0	1,052
Total Assets	<u>206,461</u>	<u>303,533</u>	<u>564</u>	<u>510,558</u>
LIABILITIES				
Accounts payable	5,112	0	0	5,112
Due to other funds	<u>0</u>	<u>0</u>	<u>564</u>	<u>564</u>
Total Liabilities	<u>5,112</u>	<u>0</u>	<u>564</u>	<u>5,676</u>
FUND BALANCES				
Reserved for				
Road projects	0	303,533	0	303,533
Public safety	0	0	0	0
Park	2,839	0	0	2,839
Unreserved	<u>198,510</u>	<u>0</u>	<u>0</u>	<u>198,510</u>
Total Fund Balances	<u>\$ 201,349</u>	<u>\$ 303,533</u>	<u>\$ 0</u>	<u>\$ 504,882</u>

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	78,706
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Net Assets of Governmental Activities	<u>\$ 583,588</u>
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The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF WATSON
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
March 31, 2005

	General Fund	Road Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Taxes and penalties	38,328	125,361	0	163,689
Licenses and permits	0	0	23,383	23,383
State aid	152,988	2,677	0	155,665
Charges for services	5,356	0	0	5,356
Interest and rentals	2,184	1,723	0	3,907
Other revenue	4,060	0	0	4,060
Total Revenues	202,916	129,761	23,383	356,060
Expenditures				
Current				
General government	104,999	0	0	104,999
Public safety	24,767	0	23,383	48,150
Public works	3,644	144,190	0	147,834
Health and welfare	6,000	0	0	6,000
Community/Economic development	10,195	0	0	10,195
Capital outlay	25,865	0	0	25,865
Total Expenditures	175,470	144,190	23,383	343,043
Excess of Revenues Over (Under)	27,446	(14,429)	0	13,017
Other Financing Sources (Uses)				
Transfers in	0	71,150	0	71,150
Transfers (out)	(71,150)	0	0	(71,150)
Total Other Financing Sources (Uses)	(71,150)	71,150	0	0
Excess of Revenue and Other Sources Over (Under)	(43,704)	56,721	0	13,017
Fund Balance-April 1, 2004	245,053	246,812	0	491,865
Fund Balance-March 31, 2005	\$ 201,349	\$ 303,533	\$ 0	\$ 504,882

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF WATSON
FIDUCIARY FUNDS-STATEMENT OF NET ASSETS
MARCH 31, 2005

	<u>Agency Fund</u> <u>(Property Tax</u> <u>Collection Fund)</u>
ASSETS	
Cash and cash equivalents	\$ 4,111
Total Assets	<u>\$ 4,111</u>
LIABILITIES	
Accounts payable	\$ 0
Due to other funds	<u>4,111</u>
Total Liabilities	<u>\$ 4,111</u>
NET ASSETS	

The Notes to Financial Statements are an integral part of this statement.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Watson, Allegan County, Michigan is a general law Township. The Township operates under an elected Board/Supervisor form of government and provides the following services as authorized by its charter: public safety, highways and street, public improvements, cultural recreation, planning and zoning, and administrative services.

The accounting policies of the Township of Watson conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. The Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity", these financial statements present the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current period. All other revenue items are considered to be available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road Fund is a Special Revenue Fund of the Township. The Road Fund is used to account for the proceeds of specific revenue tax millages that are legally restricted to expenditures for specified purposes.

Additionally, the government reports the following non-major fund types:

The Building Inspection Fund is a Special Revenue Fund of the Township. The Building Inspection Fund is used to account for all resources of the Township's permits and licenses.

TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule would be charges between the government's enterprise funds and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. The Township of Watson does not have enterprise funds.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Finally, the government reports the following fund types:

The Tax Collection Fund is a Fiduciary Fund accountable for assets held by the Township in a trustee or agency capacity for individuals, private organizations, other governments, and/or other funds.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments-Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables-In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied each July for State Education Tax, and on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent in the following September and March 1st of the respective period, at which time penalties and interest are assessed.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Inventories and Prepaid Items-Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets-Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	30 to 40 years
Building Improvements	15 to 30 years
Roads	10 to 30 years
Fire Equipment	07 to 25 years
Vehicles	03 to 05 years
Office Equipment	05 to 07 years
Computer Equipment	03 to 07 years

Compensated Absences (Vacation and Sick Leave)-It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Fund Equity-In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Government-wide financial statements differ from the Governmental fund financial statements only for the effect of the inclusion of capital assets.

Capitalized Asset Costs	\$ 133,905
Less Accumulated Depreciation	(55,199)
Capital Assets, net	78,706
Governmental Fund Balances	<u>504,882</u>
Net Assets of Governmental Activities	<u>\$ 583,588</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information-The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed as a management control device during the year. These budgets are adopted on a basis consistent with generally accepted accounting principles.
2. The Township Board approves, by ordinance, total budget appropriations only. Any revisions that alter the total appropriations of any fund must be approved by the Township Board, therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (General Government, Public Safety, etc.).
3. Unused appropriations for all of the above annually budgeted funds lapse at the end of the year.
4. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds-During the year, the Local Governmental Unit did not incur expenditures in certain budgeted funds which were in excess of the amounts appropriated.

Fund Deficits-The Local Governmental Unit has no accumulated fund balance deficits at this time.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Local Governmental Unit Board has designated several banks for the deposit of Local Unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Local Governmental Unit's deposits and investment policy are in accordance with statutory authority.

At year-end, the Local Unit's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Primary Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Government</u>
Cash and Cash Equivalents	\$ 360,047	\$ 4,111	\$ 364,158

The breakdown between deposits and investments is as follows:

	<u>Total Government</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 364,158
Investments in Securities, Mutual Funds and Similar Vehicles, net	106,042
Petty Cash and Cash on Hand	<u>-</u>
Total	<u>\$ 470,200</u>

The bank balance of the primary government's deposits is \$364,158, of which \$216,123 is covered by federal depository insurance.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

The Local Unit's investments are summarized below:

Oppenheimer Money Market and Unit Investment Trusts	\$ 122,865
Market Appreciation (Depreciation)	<u>(16,823)</u>
INVESTMENT - NET	<u>\$ 106,042</u>

The Township's investment fund is comprised of money market funds and two GNMA Bond reinvestment trusts. The value of these bonds fluctuate as the rates of interest at the federal reserve change. The market loss on these bonds for the year ended March 31, 2005 was \$4,518 and has been netted against the reinvested investment earnings of \$5881 in the financial statements.

TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 5 - RECEIVABLES

Receivables as of year-end for the government's individual major, nonmajor funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are reported in the Government Wide Statement of Net Assets as follows:

	Major Funds		Non-Major and Other Funds	Total
	General Fund	Road Special Millage		
Taxes receivable	\$ 3,539	\$ 12,331	\$ 0	\$ 15,870
State share revenues receivable	22,872	0	0	22,872
Due from other funds	4,675	0	0	4,675
Less: allowance for uncollectibles	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Receivables	<u>\$ 31,086</u>	<u>\$ 12,331</u>	<u>\$ 0</u>	<u>\$ 43,417</u>

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 23,526	0	0	\$ 23,526
Construction in Progress	0	25,865	0	25,865
Subtotal	23,526	25,865	0	49,391
Capital Assets Being Depreciated				
Buildings & improvements other than building	55,471	0	0	55,471
Machinery and equipment	29,043	0	0	29,043
Infrastructure	0	0	0	0
Subtotal	84,514	0	0	84,514
Less Accumulated Depreciation for				
Buildings & improvements other than building	33,550	743	0	34,293
Machinery and equipment	18,527	2,379	0	20,906
Infrastructure	0	0	0	0
Subtotal	52,077	3,122	0	55,199
Net Capital Assets Being Depreciated	32,437	(3,122)	0	29,315
Governmental Activities Capital Total				
Capital Assets-Net of Depreciation	<u>\$ 55,963</u>	<u>\$ 22,743</u>	<u>\$ 0</u>	<u>\$ 78,706</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General government	\$ 3,122
Public safety	0
Public works	0
Economic development	0
Recreation and culture	0
Total Governmental Activities	<u>\$ 3,122</u>

TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 7 - INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The composition of interfund balances is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
General	\$ 4,111	Tax Collection	\$ 4,111
Road Special Millage	0	General	0
Total	<u>\$ 4,111</u>		<u>\$ 4,111</u>

Interfund Transfers

<u>Transfers In</u>	<u>Transfers (Out)</u>		<u>Total</u>
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	
Road Special Millage Fund	\$ 71,150	\$ 0	\$ 71,150
Non-Major Governmental Fund	0	0	0
Total	<u>\$ 71,150</u>	<u>\$ 0</u>	<u>\$ 71,150</u>

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 8 - FUND BALANCE RESERVED FOR CAPITAL PROJECTS

General Fund

The Township sold twenty acres of land during the year ended March 31, 1995 and designated the proceeds for the purchase of land for a Township park. The reserved fund balance in the General Fund for the year ended March 31, 2005 is \$2,839.

Road Fund

Township residents approved extra voted millages for road improvements and dust control. The reserved fund balance in the Road Special Revenue Fund for the year ended March 31, 2005 is \$303,533.

NOTE 9 - PUBLIC SAFETY AGREEMENTS

The Township is a member of the Hopkins Area Fire Board and as a member has paid \$7,546 for the operation of this Board. The Township also pays Martin Township for fire services an annual contract amount of \$15,000. The Township contracts with Wayland Area Emergency Medical Services for \$6,000 annually. Subsequent to the audit date, the Township has started construction on a fire substation for use by Hopkins Area Fire Control Board's fire department, to serve Township residents more quickly in need of emergency services. The total construction bid of \$326,469 was approved and funding applied with a bank loan. Completion is slated for October 2005.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN

The Township offers its employees a defined contribution pension plan for government employees in accordance with Section 401(a) of the Internal Revenue Code. The plan is administered through The Manufacturers Life Insurance Company by the Township clerk. The investment of the plan assets is the responsibility of the Employer.

Eligibility Requirements

All Township Board Members shall be eligible to participate in the plan upon meeting the following requirements:

1. Attaining the age of 18 but not more than 75 years.
2. There is no minimum service requirement.
3. Entry date into plan is the plan anniversary date which is January 1 of each year.

Normal Retirement Age

For purposes of determining when an Employee is eligible for normal retirement under the plan, the normal retirement age has been set at 65 years of age after the completion ten years of participation in the plan.

Early Retirement Age

The early retirement age under the plan has been established to be 55 years of age.

Contributions

The following types of contributions are provided under the plan:

1. Employer contributions will be equal to 75% of schedule below.
2. Mandatory after-tax employee contributions are required to be made at 25% of the schedule below. These mandatory employee contributions are being treated under the plan as "employer pick-up contributions" so that they can be considered as made on a "salary reduction" pre-tax basis.
3. Voluntary after-tax employee contributions are permitted under the plan in amounts ranging from 1% to 10% of compensation.

<u>Participant Annual Compensation</u>	<u>Annual Contribution</u>
Less than \$200	\$ 100
At least \$200 but less than \$400	200
At least \$400 but less than \$600	300
At least \$600 but less than \$800	400
At least \$800 but less than \$1000	500
More than \$1000	600

The Township made contributions of \$3,403 for the fiscal year 2004/2005.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN (Continued)

Vesting and Forfeitures

1. Benefits attributable to Employer contributions shall be 100% vested upon a Participant's death, disability, normal retirement, or upon termination of the plan.
2. Upon termination of Participant's service for reasons other than those in item 1 above, the participant becomes 100% vested upon completion of twenty months of service.
3. Benefits attributable to Employer contributions shall not be forfeited if, for reasons other than retirement, death, or disability a Participant takes a distribution of any portion of his/her Mandatory After-Tax Employee Contribution Account prior to the expiration of 24 months following his/her termination of employment.
4. The total plan value was captured as of June 30, 2005, a subsequent date, at \$22,430.

REQUIRED SUPPLEMENTAL INFORMATION

**TOWNSHIP OF WATSON
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED MARCH 31, 2005**

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of Year Fund Balance	\$ 245,053	\$ 245,053	245,053	0
Resources (Inflows)				
Property taxes	34,925	33,413	38,328	4,915
State aid	155,000	166,000	152,988	(13,012)
Licenses and permits	0	0	0	0
Charges for services	5,276	5,951	5,356	(595)
Interest and rentals	975	2,350	2,184	(166)
Miscellaneous revenues	1,000	1,000	4,060	3,060
Transfers from other funds	0	0	0	0
Amounts Available for Appropriation	442,229	453,767	447,969	(5,798)
Charges to Appropriations (Outflows)				
General Government				
Township board	28,800	28,800	22,162	6,638
Supervisor	9,900	9,900	9,900	0
Finance	300	700	655	45
Treasurer	10,200	10,200	9,900	300
Assessing	18,600	18,600	17,366	1,234
Elections	4,700	5,194	5,109	85
Clerk	10,200	10,200	9,954	246
Board of review	1,100	1,100	694	405
Other General Government				
Building and grounds	25,900	17,900	12,159	5,741
Attorney	5,000	4,506	427	4,079
Cemetery	19,175	19,175	16,673	2,502
Public Safety				
Fire	32,000	29,000	24,767	4,234
Building inspections	0	0	0	0
Public Works				
Roads	0	0	0	0
Transfer station	5,100	5,100	3,644	1,456
Health and welfare	6,000	6,000	6,000	0
Community/Economic development	12,550	12,550	10,195	2,355
Capital outlay	10,000	26,100	25,865	235
Transfers to other funds	116,000	111,000	71,150	39,850
Total Charges to Appropriations	315,525	316,025	246,620	69,405
Budgetary Fund Balance-March 31, 2005	<u>\$ 126,704</u>	<u>\$ 137,742</u>	<u>\$ 201,349</u>	<u>\$ 63,607</u>

**TOWNSHIP OF WATSON
BUDGETARY COMPARISON SCHEDULE
MAJOR ROAD FUND
YEAR ENDED MARCH 31, 2005**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Beginning of Year Fund Balance	\$ 246,812	\$ 246,812	\$ 246,812	\$ (0)
Resources (Inflows)				
Property taxes	122,180	122,080	125,361	\$ 3,281
State aid	0	0	2,677	\$ 2,677
Interest	401	400	1,723	\$ 1,323
Transfers In	<u>116,000</u>	<u>111,000</u>	<u>71,150</u>	<u>\$ (39,850)</u>
Amounts Available for Appropriation	<u>485,393</u>	<u>480,292</u>	<u>447,723</u>	<u>(32,569)</u>
Charges to Appropriation (Outflows)				
Public Works	<u>303,350</u>	<u>303,350</u>	<u>144,190</u>	<u>159,160</u>
Total Charges to Appropriations	<u>303,350</u>	<u>303,350</u>	<u>144,190</u>	<u>159,160</u>
Budgetary Fund Balance-March 31	<u>\$ 182,043</u>	<u>\$ 176,942</u>	<u>\$ 303,533</u>	<u>\$ 126,590</u>

ANGLE & STEFFES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

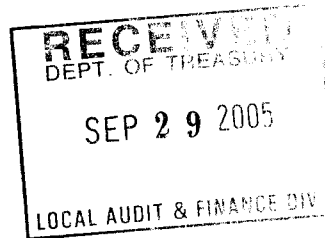
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September 15, 2005

In planning and performing our audit of the Financial Statements of the Township of Watson for the year ended March 31, 2005, we considered the Township's internal control structure to determine audit procedures for the purpose of expressing an opinion of the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are an opportunity to strengthen internal control and increase operating efficiency. We offer the following items for your consideration.

Uninsured Bank Deposits

Michigan Townships are allowed \$100,000 in each demand and savings accounts per bank to be FDIC insured in the event of loss. As of March 31, 2005, Watson Township had \$148,035 in uninsured demand deposits. We recommend that the Township evaluate the cash balances, and determine whether additional savings accounts and banks should be utilized.

Investments

The Township has investments held in Oppenheimer Money Market and GNMA Bond Reinvestment Trusts. The market has been difficult in recent periods, showing overall market losses in these funds. It is recommended that the Township officials once again revisit the fund and its investment policy to determine whether its investments still meet the goals of the Township.

General

In general the internal control systems of the Township are adequate and functioning properly. The comments noted above will help the Township strengthen the existing controls. We greatly appreciate the help and cooperation given to us by all the Township employees and officials.

Respectfully submitted,

Angle & Steffes, P.C.
Certified Public Accountants